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SUGAR ANNUAL

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Report Highlights:
Post has slightly adjusted MY 2008 and MY 2009 Dominican sugar production based on industry and official estimates. MY 2009 production is estimated at 520,000 MTRV and consumption remains stable at 335,000 MTRV. The current U.S. TRQ allocation to the Dominican Republic is half way filled. Officials have indicated that sugar is available to fill additional quota requirements if available. The DR sugar will have complete duty free access to the EU in October 2009 under the new European Partnership Agreement with the Caribbean. The Legislation on biofuels is moving forward slowly.

Executive Summary:

Dominican sugar production for MY 2008 was adjusted upwards to reflect slightly higher production reported by the Sugar Institute (INAZUCAR). Production is estimated for MY 2009 at 520,000 metric tons slightly higher than Post's previous estimated as a result of industry improvements and better weather conditions. Total production for the out year MY 2010 is anticipated to be around 525,000 MTRV. The two largest private producers, Central Romana and the Vicini group, are expected to produce almost 90 percent of production.

Domestic sugar consumption is fairly stable near 335,000 metric tons, 150,000 MT refined and the rest in the raw form. The general public consumes sugar mostly in raw form, while the soft drinks and juices and confectionary industries primarily use refined sugar. The country's total refined sugar needs are currently met and no imports are anticipated. This is not the case for raw sugar.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the highest single-country allocation. To date, the current allocation (Oct 2008-Sept 2009) of 185,335 MTRV is almost half way filled.

The DR-CAFTA agreement was implemented (3-01-2007) and it allows an additional 10,600 metric tons, with two percent yearly growth, if the DR meets the net-exporter requirement of the agreement. Under this new agreement the DR will phase out its sugar tariffs over a 15-year period beginning with 85% out of quota tariff. High Fructose Corn Syrup (HFCS) will also be phased out in a similar period, with an initial TRQ of 55 MT.

A new development has created a higher demand for Dominican sugar in the international market. In January 1, 2008, the DR as part of the Caribbean group concluded the negotiations with European Commission for an Economic Partnership Agreement (EPA). The agreement allowed thirty thousand tons of Dominican sugar to access the EU duty free, starting in October 2008 and in 2009, 100 percent free access at a lower price. Government authorities have indicated that exports to the EU will only occur after the U.S. quota requirements are filled.

Commodities:
Sugar, Centrifugal

Production:

MY 2008 production was slightly higher than previously reported due to production adjustments done by INAZUCAR (GODR Sugar Institute). Production was adjusted to reflect these changes. The current MY 2009 harvest has been adjusted upward as a result of higher output estimates (5.35 million MT of sugar cane in 245 thousand hectares) at all three of the private mills whose production output was higher as a result of plant improvements and better weather conditions. The higher overall yields of the private mill also compensated for some of the initial downtimes. The out year show some promise as demand increase from foreign markets at attractive prices. This will induce local efforts to increase sugar cane production in order to satisfy the new claim.

The two largest private producers, Central Romana and the Vicini group continue to dominate the Dominican sugar market and are expected to produce almost 455,000 MTRV (metric tons raw value) in MY 2009 (November 2008–October 2009 marketing year), somewhat higher when compared to the year before, but lower that previously estimated. The third private producer, Central Barahona is expected to add an additional 65,000 MTRV, but higher than initially estimated. Overall normal weather conditions that prevailed this year, anticipates an improvement in rainfall pattern through the remaining harvest and some sugarcane yield improvement for the out year. The MY 2009 production estimate assumes an average rainfall pattern and a slightly higher sugar output.

During the Dominican sugar golden years in the late seventies, the total output of sugar surpassed 1.2 million tons. Production gradually fell to an all-time low of 371,000 metric tons in MY 1999. This production decline was mainly due to technical, administrative, and financial difficulties with the twelve state-owned sugar mills controlled by the State Sugar Council (Consejo Estatal del Azucar or CEA), the major producer at the time. In addition, the private sector had three mills in operation. A hand full of these government owned mills, through a joint venture arrangement, were allocated in CY 2000 for a 30 year lease, to private groups and are now administered by them with mixed results. As a consequence of the privatization process and closing down of these mills, production dropped initially but has become stable in recent years. Some improvements to the mills have revamped production compensating for some of the mills that no longer operate.

A breakdown of official data on sugar output by producer group follows:

TOTAL SUGAR PRODUCTION BY COMPANY
MY 2006 – MY 2009*, Metric Tons

Sugar Mill Group	MY 2006	MY 2007	MY 2008	MY 2009*
Central Romana	370,791	370,270	365,000	370,000
Central Azucarero Consuelo	0	0	0	0
Grupo Vicini	60,551	61,716	82,000	85,000
Central Azucarera del Este (Porv.)	10,374	0	0	0
Consorcio Caña Brava	0	0	0	0
Consorcio Azucarero Central (Barahona)	48,634	50,200	53,000	65,000
Total	***490,350***	***482,186***	***500,000***	***520,000***

Source: Dominican Sugar Institute (INAZUCAR) and post estimates.

* Estimates

There is only one sugar refinery operating in the country at the present time with a total output of 150,000 metric tons for MY 2008 season.

According to INAZUCAR, the production pattern for refined sugar in MY 2009 should remain at the same levels as in MY 2008, meeting most of the country's refined sugar needs. However, the higher demand of raw sugar for the foreign markets, the U.S. quota and the opening of the EU market may require adjustments in supply, by importing more raw sugar than currently estimated.

Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry. According to official data for MY 2008, the sugar industry produced about 36 million U.S. gallons of molasses produced by all the operating mills, Central Romana produced almost 32,000 metric tons of furfural.

Central Romana and the Vicini group generally begin the sugar harvest in early to late December, while Consorcio Azucarero Central begins in January-February. This mill is able to process more cane before the rainy season which typically interrupts the harvest in late June or early July. The second cycle sugar groups, with a different climatic pattern due to their geographical location in the island, used to begin milling operations in June. This includes Consorcio Caña Brava which has been non operational during the last four harvests.

Rainfall patterns, fertilization, and labor are the main factors that determine sugar yield. Industry sources indicate that fertilizer application has shown little change in the last five years, due to high costs. While most fertilizer is applied manually, Central Romana, and sometimes other groups do minimal amounts of aerial spraying. Less than half of the land in sugar cane production is irrigated and, as a consequence, is subject to stress during dry periods.

The sugar industry requires about 25,000 full-time workers and, additional 10-15,000 temporary cane cutters during harvest. Mechanized harvest has slowly increased to around 50-60 percent of production. The degree of mechanization may continue to increase, as operating costs increase and fewer cutters are available.

Cane yields vary between 30-80 metric tons per hectare, depending upon location, rainfall patterns, available transport resources, cane varieties and fertilizer use. Some producers incorporate modern management procedures and spend more on inputs to obtain higher yields. During the last ten years, the sugar recovery rate averaged nearly 10.6 percent, but has been higher during the most recent five years. In MY 2008, sugar recovery rates averaged 10 percent, while Central Romana was somewhat higher (about 11.5 percent). Estimate for MY 2009 is anticipated to be slightly higher.

For decades, sugar cane producers have been devoting time and monetary resources to develop improved cane varieties. Sugar extraction rates have varied widely, however, between 8 and 12.5 percent. Sugar content also fluctuates between seven and 13 percent, depending on variety, level of plant maturity, and time spent on the ground or in transport after cutting. Local cane varieties are resistant to all of the major diseases currently identified in the Dominican Republic. Some of the sugar cane crosses used in the DR are: CR-74250, CR-6101, PR-63488, RD-7511 and B76-78.

Cost of production varies substantially from company to company, ranging from US$ 0.12 to US$ 0.20 per pound.

Alternative use of sugar cane for other purposes appears to be moving forward. There has been considerable information on government plans in the press during the last two years on the subject of biofuels. Ethanol appears to be the first option and legislation is moving slowly in this direction.

A new group is considering taking over two non-operating state owned mills, with plans to initially concentrate in recuperating the sugarcane fields for sugar production, because of the high degree of deterioration of these two factory fields. Further down the road this new group will consider ethanol production.

In the meantime, there is another separate project with the intention of dehydrating the ethanol from imported hydrated ethanol and/or locally produced hydrated ethanol. As it stands, needed legislation and investors, and foreign markets prices will define at the end if ethanol will move forward or not. If feasible, local production is at least 2-3 years down the road.

Consumption:

Domestic sugar consumption is fairly stable at about 335,000 metric tons, with 55 to 60 percent consumed raw and the rest as refined sugar. The general public consumes sugar mostly in raw form, while the soft drink and juices and confectionary industries primarily use refined sugar. Central Romana is currently the only local refiner and is estimated to produce about 155,000 metric tons, which is close to their maximum capacity. Semi-refined sugar has not been manufactured in the last five years.

The following table is derived from INAZUCAR data and shows the pattern of local sugar sales.

LOCAL SUGAR SALES BY PRODUCERS

Metric Tons

Sugar type	**CY 2005**	**CY 2006**	**CY 2007**	**CY 2008**
Raw	184,939	170,439	185,000	185,233
Refined	148,553	159,885	149,500	149,879
Total	333,492	330,324	334,500	335,112

*Preliminary estimate and includes imports.

Source: INAZUCAR and Industry.

Trade:

Due to the production adjustment and imports, MY 2008 sugar import estimates were revised. Current raw production estimates for MY 2009 will unlikely meet demand. Post believes, unless production goes beyond current estimates that 40,000 MT of raw sugar will be required before the end of the current marketing year.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the largest single country allocation of 16.4 percent of the total U.S. allocation for the world. The DR's initial TRQ allocation for MY 2009 is 185,335 metric tons. According to Dominican Government officials, the Dominican Republic is expected to not only fulfill the U.S. quota, but have additional sugar for the export market.

In the DR-CAFTA free trade agreement implemented on March 1, 2007, an additional 10,000 MT could be added to the current quota, with two percent growth per year, if the DR can meet the net exporter requirement of the agreement.

As of April 1, 2009, certificates for 78,100 metric tons raw value have been requested by the Dominican Republic for export to the United States under the 2007/08 TRQ, in addition to 30,000 MT to the EU. Most exports are now moving to the United States, because of price and proximity, except for small quantities shipped traditionally to Puerto Rico and informal trade with Haiti. The opening of the European market under a new economic partnership for Dominican sugar described at the end of this section, allow a new destination beginning in October 2008.

Import duties are 15 percent for raw sugar and 20 percent for refined sugar, plus a 16 percent value-added tax, referred to by its Spanish acronym ITBIS. Imports of sugar and sugar-based products still require permits from INAZUCAR (decree 576-96). With the tariff rate quota negotiated in the Uruguay Round in mind, the Dominican Republic has stated that it could issue permits for up to 35,000 metric tons imports on a first-come, first-serve basis. However, for MY 2009 it is anticipated that the Secretary of Industry/INAZUCAR will authorize imports mostly to the producers. With just the 20 percent tariff and 16 percent ITBIS, refined sugar imports (in quota) would enter the country at prices well below those of domestic sugar. So far, imports under this arrangement have not been authorized.

There are two industries and sister companies operating as off-shore plants belonging to a special Free Trade Zone operation, using sugar as a raw material. These companies produce sweetened coconut milk and piña colada mix for the export market. They also produce juices and smaller quantities of canned red-pinto-beans and garbanzos, which contain some sugar. According to CNZFE, they are authorized to import and re-export as much as 6,600 MT of sugar per year. Ag Office import estimates in this report do not include the free trade zone sugar.

In addition to raw sugar exports, other sugar related products are produced for the local and international markets. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry.

According to preliminary INAZUCAR statistics for MY 2008, sugar exports to the U.S. preferential market represented about US$ 80 million. In addition, the sugar industry produced 38 million gallons of molasses, about 20 million gallons of which were used for local consumption and 17 million gallons (valued at $10.6 million) was exported. In addition to molasses, 31,200 MT of furfural were exported, for an additional US$ 17 million in revenues.

In January 1, 2008, the DR as part of a Caribbean group concluded the negotiations with European Commission for an Economic Partnership Agreement (EPA). The agreement will benefit bananas, rum, cocoa, textiles, shoes, and tobacco. Thirty thousand tons of Dominican sugar had access the EU in late 2008 and, starting in October 2009, it will have free access thereafter. As October 2008, Dominican sugar will enter the EU at €448.20 per metric ton (CIF) and for 2009 at €335.20 per metric ton, somewhat higher that the U.S. preferential rate. INAZUCAR authorities indicate that exports to the EU will only occur after the U.S. quota commitments are filled.

Stocks:
Producers mostly hold sugar stocks, although middlemen and wholesalers also carry stocks. As imports were authorized in MY 2008, stock levels were about 40,000 MT. As production and consumption continue unchanged in MY 2009, stocks are estimated to remain in the 30-40,000 MT range.

Policy:
Several laws regulate the sugar sector. Law 491 controls the relationship between private cane producers and processors and sets the price for cane based on sugar content. Law

619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), price schedules, and statistics.

The U.S. sugar quota is divided among the producers according to an established formula based on last three-year individual production levels. Previously, INAZUCAR published the assigned percentages to the industry. Currently, a Presidential decree officially announces the allocation. This year, the allocations are: Central Romana 62.84 percent, Vicini 27.16 percent and Consorcio Azucarero Central, 10.00 percent.

As part of its WTO rectification agreement, after the Uruguay Round, the Dominican Government established a tariff rate quota for 23,000 metric tons of sugar, with an in-quota tariff level of 15 percent for raw while 20 percent for the refined. This gradually increased to 32,000 metric tons since 2005. Maximum out-of-quota tariffs were established at 100 percent, decreasing to 86.5 percent by 2005 and have remained at that level.

Under the new DR-CAFTA agreement implemented on March 1, 2007, the DR will phase out its sugar tariffs over a 15-year period beginning with 85% out of quota tariff. High Fructose Corn Syrup (HFCS) will also be phased out in a similar period.

Legislation is moving forward in the direction of sugar diversification into biofuels, specifically in ethanol-gasoline blends. Ethanol appears to be the first option and legislation is already moving forward. The ethanol-gasoline blend use was authorized by an old law (2071) and reactivated by a Decree 556-05 issued in 2005. The regulations required by the 2005 law, was enacted as a Law 57-07. A new legislation imposing the use of a five percent alcohol in gasoline awaits approval. The document has already passed in one of the two chambers and government officials in the Ministry of Industry believe that it will become a law in the near future.

Marketing:

The Secretary of Industry and INAZUCAR establish the base price of raw and refined sugar. As a result, prices are stable and producers sell directly to wholesalers and to large companies that use sugar in their product formulations. As of March 2009, the official sugar prices were as follows:

Official Prices for Sugar (March 2009)

Type of sugar	***Producer (per 100 lbs.)***	***Wholesaler (per 100 lbs.)***	***Retailer (per lb.)***
Raw	675.00	736.00	8.10
Refined	810.00	890.00	9.90
Exchange rate per US$: RD$35.50 pesos			

Source: INAZUCAR

Dominican sugar cane prices are stable and are generally guided by the exchange rate. While the 2007/2008 showed very little increase, current prices remained unaltered. Also, the retail prices for sugar have remained stable during the last twelve months. As of March 2009, prices for crude sugar ranged from US$0.25 to US$0.30 per pound

(RD$8.10-10.00). Refined sugars ranged from US$0.30 to US$0.35 per pound (RD$10-12). Supermarkets generally sell raw sugar in two and five-pound packages, while small neighborhood stores (colmados) sell in very small amounts to meet the needs of lower-income consumers.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Dominican Republic	2008			2009			2010			
	2007/2008			2008/2009			2009/2010			
	Market Year Begin: Nov 2007			Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data	
Beginning Stocks	47	47	47	61	28	38		30	40	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0		0		(1000 MT)
Cane Sugar Production	555	490	500	515	520	520		525	525	(1000 MT)
Total Sugar Production	555	490	500	515	520	520		525	525	(1000 MT)
Raw Imports	35	40	40	40	40	40		20	20	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0		0	0	(1000 MT)
Total Imports	35	40	40	40	40	40		20	20	(1000 MT)
Total Supply	637	577	587	608	588	598		575	585	(1000 MT)
Raw Exports	188	215	215	220	215	215		215	215	(1000 MT)
Refined Exp.(Raw Val)	2	2	2	2	2	2		2	2	(1000 MT)
Total Exports	190	217	217	222	217	217		217	217	(1000 MT)
Human Dom. Consumption	338	335	335	340	338	338		338	338	(1000 MT)
Other Disappearance	0	0	0	0	0	0		0	0	(1000 MT)
Total Use	338	335	335	340	338	338		338	338	(1000 MT)
Ending Stocks	61	25	35	44	30	40		20	30	(1000 MT)
Total Distribution	637	577	587	608	588	598		575	585	(1000 MT)